

# Case Study

## Contract Research: Impact of the economic downturn on the corporate bond market



### Key Facts

- The Investment Management Association (IMA) is the trade body for the UK's £3,400 billion investment management industry. Its role is to represent the industry and promote high standards.
- Corporations issue bonds as a way to raise large sums of capital for uses such as expansion or acquisitions.
- The Markets in Financial Instruments Directive (MiFID) is a European Union Law and key component in the European Commission's Financial Services Action Plan. It seeks to increase competition and consumer protection in investment services.
- The ICMA Centre at the University of Reading provides academic and executive education, research and consultancy for the financial markets.
- The IMA commissioned Professor John Board, Professor of Finance and Director of the ICMA Centre, to undertake research into how the economic downturn affected the corporate bond market.
- Research results feed directly into the IMA's policy formulation and its submissions to, among others, the European Commission as part of its structural review.

### The Client

The IMA is the trade body for the UK's £3,400 billion investment management industry. Members manage a wide variety of investment vehicles, including authorised investment funds, pension funds and stocks and shares.

IMA's key aims are to bring about improvements in the legal, regulatory and fiscal environment; maintain and enhance the reputation and standing of the industry, and provide a centre of excellence for the development of knowledge and understanding of the industry.

### The Challenge

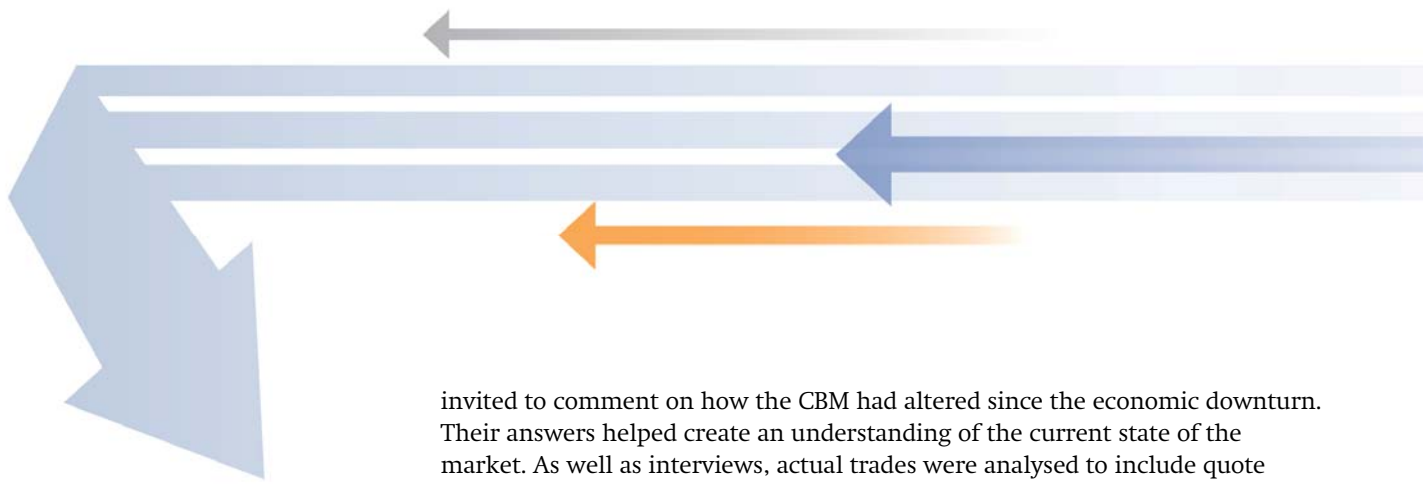
Many reviews on financial regulation are being undertaken in the context of the 2009 economic downturn including the Markets in Financial Instruments Directive (MiFID), a European Union Law and key component in the European Commission's Financial Services Action Plan. The Directive applies to all investment firms in the EU and seeks to increase competition, improve investor protection and ensure efficient and transparent markets.

The IMA needed to understand how the downturn had affected the corporate bond market (CBM). The CBM is not regulated by a stock exchange nor does it have a central point of data collection and, as most CBM trades are conducted over the phone, it is almost impossible to build up a comparative picture of the trades that take place. It has therefore been difficult to monitor the effects of the downturn.

### Solution

The ICMA Centre encompasses the financial markets expertise and activity at the Henley Business School, part of the University of Reading. The centre is supported by donation from the International Capital Markets Association. Its mission is to deliver teaching and research of the highest standard and to contribute actively to policy debate.

Using expertise found at the ICMA Centre and Henley Business School\* the research was led by Professor John Board, Professor of Finance and Director of the ICMA Centre. Investors trading corporate bonds were interviewed and



invited to comment on how the CBM had altered since the economic downturn. Their answers helped create an understanding of the current state of the market. As well as interviews, actual trades were analysed to include quote disparity and execution time. Using past activity Professor Board was able to quantify the current situation and identify how the downturn had affected the corporate bond market.

## Benefits to the Client

The IMA were able to access expertise in market structure and the impact of market change found only at a small number of institutions.

Awarding research work to the University of Reading guarantees the client the independence of view and objectivity they require.

The research findings will feed directly into the IMA's policy formulation and its submissions to, among others, the European Commission as part of its structural review.

## Benefits to the University

The research conducted is consistent with the Mission of Henley Business School to working together within the field of business and related areas to enhance learning and add value, combining academic rigour with practical insights and relevance to identify and address the needs of tomorrow.

Involvement with up to the minute industry and policy developments allows academics to update their teaching practices.

The project provided opportunities for further research and on-going collaboration with the client.

\* In August 2008 Reading Business School and Henley Management College merged together to create Henley Business School (HBS).



'We pride ourselves on being close to the market and undertaking a lot of applied research consistent with our mission to deliver teaching and research of the highest standard.'

Professor John Board  
Director of IMCA Centre

### University of Reading

The University of Reading is a world-class research-intensive university covering a broad spectrum of disciplines across the Life and Physical Sciences, Arts and Humanities, Social Sciences and Henley Business School. Areas of particular strength include: Climate Systems Science, Preventative and Therapeutic Health Sciences, Sustainable Construction and Environments and Computational Science and Informatics.

The University works with businesses providing support for research and development, as well as access to expertise and equipment to solve business challenges. To find out how you can access the leading minds at the University of Reading please contact our Knowledge Transfer Centre.